TESTIMONY OF

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(ACQUISITION, TECHNOLOGY & LOGISTICS)

BEFORE THE UNITED STATES SENATE

COMMITTEE ON ARMED SERVICES

READINESS AND MANAGEMENT SUBCOMMITTEE

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Overview of the Department of Defense

Acquisition and High Risks Areas

The Honorable Michael W. Wynne
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(Acquisition, Technology and Logistics)

Chairman Ensign, Senator Akaka and Members of the Committee:

Thank you for the opportunity to appear before you and discuss the Government

Accountability Offices' (GAO) high risk determinations that come under my purview.

Since arriving at the Department of Defense, I directed action to resolve the long standing

GAO high risk areas of Weapons Systems Acquisition; Contract Management and

Interagency Contracting; Supply Chain Management; Support Infrastructure

Management and Managing Federal Real Property; and Business Systems Modernization.

As noted by my friend David Walker and my GAO colleagues, our high level focus and

associated initiatives have resulted in tangible progress in the weapon systems, contract

management and infrastructure areas. Earlier this year, the Deputy Secretary gave me

responsibility for the management and oversight of DoD business transformation. I look

forward to working closely with the Comptroller as we make this transition and set the

course for supporting the Department's future business operations. While we have made

great progress in making acquisition more efficient, in moving capabilities to the

warfighter faster, and in the transformation of our defense establishment, I recognize we

must make even greater progress in the future. I thank the Committee for your leadership

in providing both the authority and guidance for our efforts to date and ask for your

continued support.

Ethics

While I intend to provide an update of the actions underway to address GAO's high risks, I want to first discuss the steps I have taken to reinforce the Department's cultural emphasis on ethics in the wake of Darleen Druyun's pleadings and to briefly address the size and responsibilities of DoD's acquisition workforce. For many years, there has been a robust framework of statutes and regulations that demand strict adherence to ethical standards generally, and to principles of procurement integrity in particular. The vast majority of the Department's workforce holds these principles to be sacrosanct. Likewise, integrity is at the forefront of my Acquisition, Technology, and Logistics (AT&L) Goals as my first goal continues to be Acquisition Excellence with Integrity. Over the past several months, I have launched a series of initiatives to underscore the fundamental role of ethics in acquisition. The ethical behavior of our procurement officials not only ensures that the acquisition process is fair and legitimate, but also serves the objectives of fiscal restraint and operational effectiveness so critical to the national defense.

It is essential that we continue to cultivate ethical values across the Department not only because ethics are important, but because an effective ethics program largely depends on self-enforcement. We must articulate the Department's commitment to ethics, so that each employee understands that commitment and makes a similar commitment, and we must organize the acquisition community to promote oversight and minimize the risk of abuse.

Beginning last fall, I announced a series of measures designed to augment the Department's ethics program, and to improve oversight and sound decision-making. In addition to the annual statutory training requirement, I called for the development of a mandatory ethics-training module for acquisition officials, to review standards of conduct in dealing with defense contractors. Every member of the acquisition community is to complete the training program by the end of this year. In November of 2004, I established a Defense Science Board task force to study the process by which we make decisions regarding acquisition, and the checks and balances necessary to preserve the integrity of those decisions. Prior to finalizing their recommendations, the task force submitted preliminary recommendations in February. In response to those recommendations, I issued two memoranda to the senior acquisition executives of the Department's components: first, a directive that they establish policy, for my review, requiring that the authority to oversee acquisitions, make source-selection decisions, and negotiate or award contracts, does not reside in one person; and second, a request for reactions to the task force's recommendation that key leaders in the acquisition community undergo a thorough annual review by not only higher officials, but also by peers and staff.

These measures will build upon the solid base of an ethical culture already in place within the Department's acquisition community. The Defense integrity initiative is an ongoing effort of the Defense Industry that we have drawn upon for some of our ideas. As we move forward, I will call on companies across the defense industry to share best practices from their ethics programs and the way in which they impart corporate values to

their employees. We must send the message that we expect ourselves and our contractors to reflect the highest ethical standards. The vitality of the procurement system depends on it.

Acquisition Workforce

I also want to address, right up front, the size of the AT&L workforce. I believe we are at the point where any further reductions beyond the levels of this workforce, consistent with the President's 2006 Budget Request, will adversely impact our ability to successfully execute a growing workload. The numbers are startling. The Defense acquisition workforce has been downsized by roughly half since 1990 while the contract dollars have roughly doubled during the same time period. Specifically, the DoD-wide AT&L workforce shrank by 10% from 149,439 in March 1998 to 134,539 in September 2004. During this same time period contract actions increased significantly both in dollars and in the number of contract actions. Using 2004 constant year dollars, the contract dollars have increased from $118 billion in FY 1998 to $241 billion in FY 2004, a 105% increase. The greatest amount of work for acquisition personnel occurs on contracting actions over $100,000, and those action have increased from 101,663 in FY 1998 to 160,388 in FY 2004, a 58% increase.

A study conducted by the Office of the Inspector General [IG Audit Report Number D-2000-80, DoD Acquisition Workforce Reduction Trends and Impacts, February 29, 2000] indicates that such reductions have led to significant impacts to the acquisition community, to include: increased backlog in closing out completed contracts; increased program costs resulting from contracting for technical support versus using in-

house technical support; insufficient personnel to fill-in for employees on deployment; insufficient staff to manage requirements; reduced scrutiny and timeliness in reviewing acquisition actions; personnel retention difficulty; increase in procurement action lead time; skill imbalances; and lost opportunity to develop cost savings initiatives.

The Global War on Terrorism and increasing Defense budget places greater demands on acquisition workers ability to support the warfighter. I appreciate the leadership that the Senate has provided in prior years in ensuring that DoD has a sufficient acquisition workforce, that is well trained. We need to continue to renew and restore the defense acquisition workforce. We need to ensure that we have the right people in the jobs to perform the functions required to support our warfighters. Now more than ever, I believe we need to increase the size of the acquisition workforce to handle the growing workload, especially as retirements increase in the coming years.

I will now address the specific high risk areas under my purview beginning with Weapons Systems Acquisition.

DoD's Weapon Systems Acquisition

GAO continues to assess weapon systems acquisition as high risk, but it acknowledges some of the positive steps we have taken. I want to be clear that we have made excellent progress in changing how we think about what I call "big acquisition", including how we develop and manage our requirements as well as the acquisition programs to meets those needs. DoD has changed its requirements processes and the acquisition processes in significant ways that emphasize the identification of joint network-centric capabilities while employing an evolutionary approach to rapidly acquire

advanced warfighting capability. Our evolutionary acquisition programs are divided into

increments of capability based on stable, well defined requirements; mature technology;

and full funding. The anticipated results are reduced cycle time and programs that are

delivered on time and within budget. Let me give you some specific examples of the

thought process, and how it relates to some of the larger acquisition programs.

- **Future Combat System (FCS).** The budget delays fielding of the initial FCS

  Unit of Action by four years, while providing for the introduction of advanced

  technologies developed for the FCS into the current force. Rather than wait for

  the "final product", we have taken an approach that reduces overall risk to the FCS

  program, while still allowing the current force to benefit from many of the

  near-term possibilities flowing out of the program development activities.

- **Shipbuilding.** The new DD(X) destroyer, the CG(X) cruiser, and the Littoral

  Combat Ship (LCS) are representative of evolutionary acquisition in the context of

  a family of systems employing common technologies. DD(X) development is the

  baseline for CG(X) and technologies developed for DD(X) will be installed on

  CVN-21 and LHA(R) platforms. The fully open architecture Combat Systems

  Suite of the DD(X) will be the backbone for all future surface forces. In these

  cases, the budget maintains the integrity of the evolutionary acquisition process,

  keeping each program in its appropriate place in the development and initial

  construction cycle.

We are also taking a more corporate view of our acquisition process through the

initiation of Capability Area Reviews. These reviews allow me and other senior

department officials to review our capability areas from the 50,000-foot level to ensure we are seeing individual programs and systems-of-systems in the integrated and networked operating context for which they are intended. These reviews allow us to identify disconnects and inconsistencies more quickly than we would with an individual program approach and to facilitate early and effective corrective action. We believe this is key to ensuring a comprehensive and integrated approach to achieving the transformed warfighting capabilities that we need. We are re-establishing systems engineering which fell through the crack of previous reform efforts.

Part of our overall approach includes responding to joint warfighting requirements in an even more effective manner. Beginning in FY 2006, I will initiate transformation of our very successful Advanced Concept Technology Demonstration (ACTD) effort into the Joint Capabilities Technology Demonstration (JCTD) program. The JCTDs acknowledge our commitment to support the joint warfighter, and they explicitly take into account the funding challenges associated with the rapid fielding of new technology. The new program will be based on suggestions we have received from Congress and the GAO, and I believe it will help us to maintain our department-level focus on important joint capabilities and to accelerate acquisition and fielding.

To meet the urgent operational needs of the Warfighters, we created a Joint Rapid Acquisition Cell (JRAC). The JRAC is responsible for assisting in the resolution of immediate warfighting needs of Combatant Commanders' and/or the Military Departments' certified and prioritized Urgent Operational Needs that have been validated by the Chairman, Joint Chiefs of Staff. The JRAC has already had a favorable impact on

16 critical programs and the reprogramming of over $400M to enhance intelligence gathering and dissemination, quickly identify terrorists, safely explode IEDs, and protect our warfighters.

Another of my initiatives is the Defense Acquisition Management Information Retrieval (DAMIR) which streamlines acquisition program management reporting. We are re-engineering the very processes by which we gather and report management information concerning acquisition programs. The DAMIR ultimately will enable the OSD, the Military Services, and other participating communities to access information relevant to their missions regardless of the agency or where the data resides. Also, beginning this month, I am happy to say that this committee will have access to Purview, DAMIR's presentation layer. Right on your desktop, Purview will provide unclassified acquisition information that you typically receive in the annual paper copy of the Selected Acquisition Reports (SARs). Future releases over the next year will add additional information. By supplementing this with a hard copy classified annex, we can eliminate the hard copy annual SARs.

- **Systems Engineering Emphasis – Increase the Knowledge Base:** While mentioning these process improvements, I should note that we have reinvigorated our approach to systems engineering by issuing comprehensive and well designed policy, revamping our education and training programs, and implementing a robust outreach program to ensure the policies are institutionalized throughout the department and with our industry partners. The primary outreach emphasis is on individual programs to establish a sound initial and total life cycle program

management structure. We expect this to lead to much improved control over our

design and manufacturing processes, enhance our analysis of program status, and

create an improved knowledge base for management decision making. As

Chairman of the Defense Acquisition Board, I have reviewed many programs

where a lack of systems engineering has contributed to cost, schedule, and

technical problems. Sound systems engineering practices are critical to our ability

to field affordable weapon systems, on time, and that provide the capabilities we

need on the battlefield.

- **AT&L's Scientist and Engineers:** My focus on systems engineering extends to

  our science and engineering workforce today and in the future. Since 1999 more

  than 12 major studies warn of the deteriorating situation within the U.S. science

  and engineering workforce. Last year Congress provided the Science,

  Mathematics and Research for Transformation (SMART) legislation that

  authorized the Department to carry out a scholarship program with an employment

  payback component. To ensure we maintain an effective workforce, I propose

  making the SMART Pilot a permanent program. I also seek your support in

  providing additional authorities that will would improve substantially our ability to

  develop, recruit, develop, and retain individuals who will be critical in fulfilling

  the Department's national security mission.

In sum, the Department has taken many substantive steps toward improving the

effectiveness, focus, and transparency of our weapons system acquisition process. We

have no intention of stopping here, and we will do all that we can to support the needs of our warfighters using the most efficient, responsive systems we can design.

Managing Federal Contracting More Effectively

Next I would like to address the High Risk area of DoD Contract Management including Services, Management of Interagency Contracting, Payments, and Contract Close out as well as update you on our Spend Analysis efforts. The Department has made great strides in improving contract management. Numerous activities have been completed and many more are ongoing to improve our ability to award, monitor performance and ensure that payments are made timely and accurately.

- **Services:** In our acquisition of services, the Department has met all of the essential statutory requirements of implementing Section 801 of the FY2002 National Defense Authorization Act, which required the Department to establish and implement a management structure for the procurement of services comparable to the management structure that applies to the procurement of products. The Department continues to enhance the management structures and processes beyond the basic implementation of the law through a variety of activities. To date we have implemented services contracts oversight processes for each of the Military Departments to ensure service acquisitions are of the highest quality, support DoD objectives, are performance based and are planned and administered to achieve the intended results. We are actively engaged in reviewing and modifying our processes modeled upon industry best practices including strategic sourcing at both the individual military department and at the

joint service level. Through our efforts to model our entire acquisition function we can better understand where process improvements can and should be made to affect the greatest increases in efficiency. These managerial processes and acquisition process changes will greatly strengthen our ability to manage complex service actions.

- **Management of Interagency Contracting***:* GSA and DoD have worked closely to make significant improvements in the manner in which GSA contracts and other Interagency Contracting is conducted. We continue to make improvements in our interagency acquisitions to ensure that contracts are utilized properly and comply with all fiscal requirements.

On October 29, 2004, DoD issued a new policy on the "Proper Use of Non-DOD Contracts." The policy was jointly signed by me and by my counterpart in the USD(C). The policy became effective on January 1, 2005. It requires the Military Departments and Defense Agencies to establish a process to ensure that, for actions greater than $100,000, minimum standards be met before a non-DoD contract can be utilized to meet a DoD need.

The policy requires a specific determination be made that the requirements are within the scope of the intended contracts and a review of the proposed funding to ensure that it is compliant with all regulations. Our policy requires that DoD provide any unique requirements and clauses to a non-DoD contracting office issuing a contract on our behalf. We also are developing training on our policy.

In support of our policy, we have been working especially closely with the General Services Administration (GSA) in support of their "Get It Right" campaign and with the National Business Center (NBC) and "GOVWORKS" organizations of the Department of the Interior. We will be visiting other non-DoD organizations, such as the Department of Treasury and Veterans Affairs and NASA, to demonstrate our resolve.

Our recent policy changes and training emphasis are designed to instill discipline within the Department when utilizing a non-DoD contract to meet our needs. I would like to reaffirm the DoD's commitment to working closely with all the Assisting Agencies to improve the interagency acquisition process.

- **Payments:** The DoD acquisition community continues to partner closely with the finance community to improve the payments process. One of the areas of improvement is the matching process where invoices are compared to contracts and receipts/acceptances to ensure timely and correct payments are made. An electronic business solution called Wide Area Workflow (WAWF) is the DoD solution to standardize this process. WAWF lets vendors electronically submit invoices and receiving reports through a central point for all of DoD. In turn, Government users are able to electronically receive the information, digitally sign the documents, and process for payment. Within this process, WAWF is also the central point of electronic collection of the Unique Identication (UID), a key enabler of financial information, and AT&L transformation. The Defense Contract Management Agency (DCMA) has led the deployment of WAWF to the

Department's top vendors with the greatest volume of monthly receiving reports and invoices. The results to date show the use of WAWF virtually eliminates late payments and associated interest penalties. The next version of WAWF will be released shortly and provides the ability to process receiving reports from local inventory systems, such as the Defense Logistics Agency in particular, allowing for destination acceptance activities to utilize WAWF. At the Defense Logistics Agency (DLA), this will allow WAWF to process high volumes of transactions in addition to the processing of Radio Frequency Identification (RFID) information for asset tracking from the factory to the warfighter. RFID is different than UID as the RFID can be used again but the UID, is unique to the system for its life. This will transform maintenance and government property.

We believe that these efforts will allow the Department to improve its ability to strategically plan the acquisition of services from which performance goals can be developed and to properly manage them throughout their life cycle.

- **Contract Closeout:** As part of our efforts to improve contract management, we have focused on reducing the number of overage contracts. This involved a systemic review of the reasons for overage contracts, as well as a concentrated effort to identify overage contracts and the actions necessary to move them expeditiously through the closeout process. This has resulted in a greater than 50% reduction in the number of overage contracts over the last three years, from close to 20,000 to just over 9,000. We expect further reductions as a result of the contract closeout authority provided by the National Defense Authorization Act of

2005. The Act enables us to close out contracts that have an unreconciled balance of less than $100,000. In addition to reducing the number of overage contracts, DoD has also undertaken a review of the systemic reasons for the existence of overage contracts. This review includes both an internal assessment and a request for public input on how to improve the contract closeout process. The internal assessment has revealed a number of areas for which improvements have already been made, including actions to facilitate receipt of contractor annual indirect cost submissions and final vouchers. The public input includes a public meeting that will provide a full and open discussion of how DoD can improve the contract closeout process. By taking actions to eliminate and/or mitigate these systemic issues, the number of overage contracts can be reduced even further.

- **Smart Buyer/Spend Analysis/Strategic Sourcing:** In response to several GAO reports the Department established a joint-level integrated product team to conduct a commercial type spend analysis of DoD's service acquisitions (excluding research and development). We analyzed contract award data, stratified our services spending into fifty-two distinct commodity categories and identified the top categories offering potential benefits through strategic sourcing. We established two joint-level commodity teams; administrative clerical services led by the Navy and wireless communication services led by the Army. The initial commodity analyses are complete and strategic acquisition plans are being developed for these two categories. The analysis and therefore strategy for the administrative clerical services commodity revealed that 100 percent of this

acquisition will be set aside for small businesses; aligning the Department's goals for maximizing small business participation with strategic sourcing tenets. A third commodity team has just been established to review the acquisition of medical services (doctors, nurses, technologists) and is being led by the Army. A proposed joint-level concept of operations for conducting strategic sourcing efforts was approved by senior OSD, Military Department, DLA and DCMA procurement officials on January 14, 2005. The concept of operations outlines a governance structure, spend analysis concepts, as well as the establishment and conduct of commodity teams. Additionally, key representatives from the Department (that is, the directorate of Defense Procurement and Acquisition Policy and our Defense Acquisition University) are participating in the OFPP working group for strategic sourcing and assisting in the development of the Federal-wide concept of operations and communications strategy.

The Department has recently completed a pilot program to automate the collection and analysis of essential, Department-wide spend data. Enabled by the Wide Area Work Flow and Unique Identification concepts, data was obtained and organized through the use of Commercial Off the Shelf (COTS) business intelligence software into a Common Data Model directly from the Air Force and Army business intelligence systems, which capture a wealth of information about existing contracts. For the initial pilot, and as a cost savings measure, Navy spend data was incorporated into the Air Force system, and spend data from the Missile Defense Agency was incorporated into the Army system. In this initial pilot, we

gained visibility into approximately 43% of the Department's spend for FY04.

Technical issues identified during the pilot phase are being resolved in conjunction

with the CIO's office to further prove and evaluate the concept, with a plan to

incrementally improve upon the pilot and deliver a spend analysis/business

intelligence system to the acquisition and contracting community. The

overarching goal is to provide a streamlined method by which managers at all

levels can gain access to the relevant department-wide or component level spend

data necessary to make smart acquisition decisions.

DoD's Approach to Business Transformation
Addressing Challenges in Broad-Based Transformations

I appreciate GAO's acknowledgement of the Department's senior leadership

commitment to improving our business operations and their recommendations on

significant transformation. I am currently pursuing DoD Business Enterprise-level

capabilities that will serve as transformation catalysts to accelerate broader, Department-

wide improvements in business processes and information systems, while enabling

financial accountability. My leadership thrust relies on three principles: clear standards,

clear lines of authority, and tiered accountability. Specific details on Supply Chain

Management, Support Infrastructure Management, and Business Systems Modernization

follow.

Supply Chain Management

In the supply chain area, I want to first compliment Dave Walker and his staff for

their assessments of DoD logistics and supply operations, dating back to the 1990's. I

believe GAO has conducted more than 60 studies in this area since 1990—with 13 completed in 2003 and 2004--and the DoD has generally endorsed and implemented their recommendations.

The overall effectiveness of the total supply chain was demonstrated in Operation Enduring Freedom (OEF), which began less than a month after the September 11 attacks and removed the Taliban from power in short order. In support of Operation Iraqi Freedom (OIF), which led to the overthrow of Saddam Hussein in a matter of weeks, we moved and <u>sustained</u> a ground force farther and faster than ever before. Those accomplishments would not have been possible without an effective total supply chain.

The GAO report notes that DoD currently owns about $67 billion in inventory in 2002. It should also be noted that when inventory management was added to the High-Risk Series in 1990, DoD inventory was over $100 billion and the initial GAO focus was on efforts to reduce the inventory in the wake of the Cold War. When military readiness concerns surfaced in the late 1990's, DoD undertook steps to bolster inventories for critical spare parts. Budgetary limitations and the extended lead times for critical parts—up to three years for some aviation spares—posed significant challenges, but the supply chain was able to respond well enough to effectively support OEF and OIF. The foundation elements for inventory tracking was radio frequency ID.

The DoD supply chain has been a focus item of mine from the day I interviewed with the Secretary in 2001. I have sponsored several efforts to move towards Knowledge Enabled Logistics. Knowledge Enabled Logistics means asset tracking, conditioned based maintenance, performance based support from our industry providers, lean

maintenance in all of the Depots, and integrating the Supply and Distribution folks to focus fully on factory to fighter. The introductions of Joint Deployment and Defense Distribution Operations Centers (JDDOCs) into Central Command in January 2004, and more recently into Korea, PACOM, EUCOM, and SOUTHCOM, led to better-synchronized theater distribution and greatly reduced the goods in flow, while putting warfighter customer needs first. This means Trusted Logistics from the customer perspective, an end to duplicate ordering, and paying attention to retrograding repairs back to the US with the same intensity as getting warfighting capability into theater. I have introduced Unique Identification and introduced changes to the International Standards Organization as a foundation element to knowing the stock, and also Radio Frequency Identification in partnership with commercial industry to manage inventory levels throughout the system, and throughout the theater when fully deployed. Over time all of our purchases that meet certain criteria will come to us both marked and tagged. I think the latest statistics demonstrate positively that we are very close to Trusted Logistics with the performance we have fostered.

Clearly ongoing operations demonstrate both the effectiveness of the DoD supply chain and some areas for continued improvement. Recent achievements include:

- We have integrated and focused the 500 initiatives which Dave's staff identified (and we found when I joined DoD) into four specific strategic initiatives: (1) achieve Joint Theater Logistics Management; (2) transform weapon system support; (3) compress our organically managed supply chain and achieve asset visibility; and (4) modernize our business systems.

- Industry continues to provide exceptional performance based support to our weapon systems. We are realizing 30 to 40 percent increases in materiel availability, a 70 to 80 percent reduction in lead times, and historically high readiness levels for systems deployed in Iraq today.

- Responded as rapidly as possible (given lead time) to improve materiel availability. Today, materiel availability for the Defense Logistics Agency is 88 percent (versus a target of 85 percent) and backorders hit a historic low in March 2004.

- Through aggressive partnering with industry, DLA's cost recovery rate is at a historic low of 15 percent this year.

- Increased the number of recoverable items returned from theater for repair each quarter by a factor of twenty in the past year.

- Established a new contractor-operated distribution depot using a commercial warehouse system in Kuwait in September 2004.

Even with these accomplishments, we have some areas for improvement, including further reducing our response time and variability in that response time. To address those areas DoD will continue to aggressively implement joint theater logistics, performance based weapon system sustainment, lean organic procedures, radio frequency identification, and an integrated end-to-end distribution process. We published our strategy for achieving Knowledge Enabled Logistics on December 10, 2004 and we are currently documenting specific actions and milestones to implement that strategy. I expect to publish those actions and milestones as a "Logistics Roadmap" in July 2005.

In summary, the Department has done much to improve the management of its supply chain, but much remains to be done. I firmly believe in continuous improvement, that we can always improve, always find ways to do better. So, I welcome the assistance of the Office of Management and Budget and the Government Accountability Office to focus the Departments efforts in this and other areas on GAO's High-Risk list. I fully agree with the OMB formula for effective management: top management commitment, a clear definition of what must be accomplished, a clear action plan, and a process for holding people accountable for results.

Support Infrastructure Management & Managing Federal Real Property

In January 2003, GAO designated federal real property as a high-risk area due to long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space challenges. In their most recent update of the high-risk series, GAO concluded that the underlying conditions continue and that more remains to be done to address the problems and obstacles that prevent agencies from solving them.

In February 2004, Executive Order 13327, Federal Real Property Asset Management, was issued by the President to promote the efficient and economical use of federal real property assets and to assure accountability for implementing management reforms. The EO established the Federal Real Property Council, which has been instrumental in establishing guiding principles, asset management plan requirements, performance measurements, and inventory management direction. DoD has been actively leading the inventory management efforts in support of the EO.

For the past several years, the Department of Defense has been pro-active in its efforts to manage the Department's facilities and infrastructure. In 1998, the Department set out on a six-year program to eliminate 80 million square feet of obsolete and excess facilities, and subsequently exceeded the target. In 2001, the Department issued its first ever Defense Facilities Strategic Plan. In September 2004, we issued a comprehensive, capabilities-based, performance-oriented Defense Installations Strategic Plan. Our infrastructure investment strategy rigorously utilizes key metrics such as sustainment and recapitalization, to provide support for the facilities that directly support mission and readiness. To improve the accuracy and usability of the inventory, in 2004 the Department undertook an extensive review and re-engineering of its real property inventory system and process. In the course of re-engineering, we have developed the concept of assignment of unique identifiers to real property assets. This enables linkage of related real property data across business areas, achieving the AT&L vision of linking people to real and personal property – any place, any time, anywhere.

The President's Management Agenda recently started including Real Property Asset Management as one of its key scorecards. As of December 2004, the Department's progress in its real property management improvement efforts was scored green, reflecting the aggressive efforts being taken. Our practices are being adopted at many of the other federal agencies, such as DOE and NASA. We have taken GAO high-risk very seriously, and are working to ensure our real property asset management practices provide the infrastructure needed to enhance the operational force capabilities and missions.

Business Systems Modernization

Although recently designated by GAO as a "High Risk Area" in its January 2005 report, the Department's approach to Business Transformation is moving in the right direction. On February 7, 2005, the Deputy Secretary established the Defense Business Systems Management Committee (DBSMC) and designated me as its Vice Chairman. The Committee will oversee business transformation and ensure funds are obligated for defense business systems modernization in accordance with the requirements of the Fiscal Year 2005 National Defense Authorization Act (NDAA). Additionally, I have assumed direct responsibility for the Business Management Modernization Program (BMMP). I have assumed this new responsibility as it has become evident that the BMMP was not achieving its objectives, as evidenced by the recent downgrading in its progress rating in the President's Management Agenda. To get BMMP back on track, I have appointed a Special Assistant for Business Transformation who will be my full-time Senior Executive overseeing the Defense Business Systems Modernization efforts.

As described in our March 15, 2005 Annual Report to the Congressional Defense Committees, we are on track with establishing a strategic and integrated plan for business transformation with specific goals, measures and accountability mechanisms. Our efforts to ensure effective control and accountability over the Department's business transformation address many of the concerns and recommendations identified in the recent draft GAO report (GAO-05-381, March 16, 2005) , titled " DoD Business Systems Modernization: Billions Being Invested Without Adequate Oversight".

These actions make sense because most of the processes that support financial management and the Department's goal of financial transparency reflected in clean audits are AT&L processes. Additionally, having the Deputy Secretary of Defense and the Under Secretary for AT&L overseeing this program sends a clear message regarding senior leadership involvement. Placing the program under acquisition oversight will instill program discipline as we move from focus on architecture development to rapid implementation of business capabilities.

We have also delegated responsibility for review, approval, and oversight of defense business systems to the approval authorities specified in the 2005 NDAA. As part of the investment review board process, we are defining a management structure that clearly defines the relationship between OSD and the Components for investment review responsibilities. I believe these steps will ensure the management accountability and sustained engagement by senior DoD leadership recommended by GAO in the report I mentioned earlier.

We have made significant progress to date on creating data standards and strategies, translating over 145,000 requirements into business rules for financial compliance, developing an initial Business Enterprise Architecture, and improving control of IT spending. Additionally, we have made great gains in defining processes & standards for Unique Identification as a means of achieving Total Asset Visibility, developing a Standard Financial Information Structure (SFIS) that will enable financial

transaction traceability, and creating a single face to industry for all components using information technology.

As you are aware, a number of DoD Components are making substantial investments in ERP systems. In addition to ensuring that we provide the services with data standards and business rules to ensure interoperability among these systems, and complying with DOD-wide Business Enterprise capability requirements, I am working closely with the ASD(NII) and the business mission area owners to ensure that these transformational systems are acquired properly and that their potential benefits are achieved as soon as possible. Our initiatives in this area include (1) establishing Blanket Purchase Agreements for COTS/ERP software and associated system integration services under the Enterprise Software Initiative, (2) publication of a Defense Acquisition Guidebook section on best practices in acquiring COTS software, and (3) mapping the decision points and information requirements of the DoD Acquisition Framework to the natural decision points of the COTS/ERP acquisition process. Finally, as part of the realignment of the BMMP into AT&L, we are establishing an ERP center of expertise. This team of subject matter experts will work with the components to further encourage sharing of best practices, reuse of capabilities already developed, and rapid implementation of DOD rules & data standards.

We are working to address GAO concerns with the DoD's business system inventory and enterprise architecture. As we stated in our March 15 report, DoD has improved the accuracy of its business system inventory. A standard definition of a

system is being used to ensure a consistent inventory and business systems are now being recorded in a single repository, the DoD Information Technology Portfolio Data Repository (DITPR). We are on track to complete a Business Enterprise Architecture sufficient to clearly define the DOD Business Enterprise and its associated capabilities and systems, as well as the component Business Enterprises and their capabilities and systems, by this fall as required by the 2005 NDAA.

While significant work remains, I am confident that the strategy we have adopted and the steps we have taken will achieve the transformation we desire and account for shortcomings identified by GAO in their recent reviews.

Conclusion

Before closing, I would like to note how extremely proud I am of the world-class AT&L workforce. One metric of their ability and dedication can be found in the awards they win. Some highlights of these are: The Defense Acquisition University was recently recognized by the American Society for Training and Development at the #1 training organization for 2004 in America. Our efforts to transform business processes and practices won recognition as well. Ms Lisa Romney, one of our procurement analysts was selected as a Fed 100 winner, and two enterprise programs managed by DoD recently won recognition: The Federal Technical Data Solutions (FedTeDS) was a finalist for the 2005 Excellence.gov Award, and the DoD E-Mall received the David Packard Excellence in Acquisition Award.

In closing Mr. Chairman, thank you for the opportunity to testify before the Committee about our acquisition programs, policies, processes, and, especially, our people. I would be happy to answer any questions you and the Members of the Committee may have.